

**Crowdfunding for Chinese Social and Environmental Small and Growing Businesses:
An Investigation of the Feasibility of using U.S.-Based Crowdfunding Platforms**

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Executive Summary

Background

China's "open door" policy transformed the country's economy, but at a social and environmental cost. Chinese Social and Environmental (SE) Small and Growing Businesses (SGBs) can help China face these challenges through economic development, poverty alleviation, and environmental benefits. Yet Chinese SE SGBs are limited by their lack of finance. Crowdfunding, soliciting small amounts of funding from many people, provides an alternative to traditional finance. Currently, the Asian crowdfunding industry is small relative to that of the U.S. Chinese SE SGBs may find that using U.S.-based crowdfunding platforms can generate more funding especially if they target Chinese diaspora and the SE community. The China Impact Fund (CIF) is investigating whether crowdfunding is a viable financing option.

Research Question

Is it feasible for Chinese SE SGBs to use U.S.-based crowdfunding platforms to gain access to financing?

Research Strategy

My research project assists CIF in assessing the feasibility of Chinese SE SGBs to use U.S.-based crowdfunding platforms. I break feasibility into three key research components:

1. **Accessibility** to U.S.-based crowdfunding platforms.
2. **Burden** (Time) of crowdfunding.
3. **Funding** received.

The Accessibility benchmark and either the Burden or Funding must pass for the research question to be "feasible". Chinese SE SGBs must be able to access U.S.-based crowdfunding platforms. However, Chinese SE SGBs may find it worth the extra time burden to obtain financing, or find the time burden reasonable even if they obtain less than the desired amount of funding. I establish benchmarks for the components and create within each several indicators. I determine indicator value by gathering data from primary and secondary sources including interviews, websites, industry reports and journal articles.

Results and Crowdfunding Lessons

Results suggest that it is feasible for Chinese SE SGBs to use U.S.-based crowdfunding platforms. Many platforms allow international campaigns. Based on information from interviews and other sources, participation by internationals did not impose an overly burdensome fee or time commitment in comparison to U.S. campaigner experiences. However, the percentage of Chinese SE SGB campaigners that reached their funding goal was smaller compared to U.S. campaigners.

My research and interviews provides Chinese SE SGBs with several applicable lessons to their crowdfunding campaigns.

1. **Personal and professional networks play a powerful role in crowdfunding.** Many interviewees expressed heavy reliance on their networks to get immediate funding, word-of-mouth marketing, and presence in the crowdfunding market. Chinese SE SGBs can ask their U.S. contacts to help navigate the U.S. marketplace and identify cultural expectations.
2. **Campaigns should have a consistent, clear and strategic marketing plan.** Concurrent with having a strong professional and personal network, marketing contributes to campaign success by publicizing the crowdfunding campaigns and the organization behind it.
3. **Chinese SE SGBs should carefully decide how to position their campaign.** Funders can be viewed either as customers that “pre-order” campaign rewards, or as supporters of a communal and charitable purpose. Chinese SE SGBs will need to think cautiously since their decision may affect future campaigns and business transactions.
4. **Crowdfunding is generally a high time commitment with no guarantee of success.** Chinese SE SGBs that crowdfund should be prepared for a possible time commitment of a year or longer devoting between 1-17 hours a day to sustain the campaign.

Introduction

China's "open door" policy transformed the country into the world's second largest economy.¹ With a GDP of over USD 8 trillion² and growth rate of close to 8 percent,³ China continues to generate high economic growth rates with rising levels of affluence.⁴

However, China's growth comes with serious social and environmental concerns. Over the past thirty years, China's GINI Index (a common measure of economic inequality) increased by 45 percent.⁵ Social unrest has also been rising, with Chinese officials reporting a 750 percent increase in social incidents within a ten year span.^{i, 6} Moreover, China is the world's top emitter of greenhouse gases due to greater production demands and growing energy needs.⁷ An analysis by the China Impact Fund and New Ventures China assessed the economic value of environmental degradation to China. Within five years, this environmental degradation cost rose from USD 85 billion⁸ to USD 160 billion.^{ii, 9} Rising economic growth will continue to exacerbate income inequality and environmental degradation without focused interventions.

While the Chinese government is actively addressing these issues through their 12th Five-Year Plan¹⁰ and poverty-reduction initiatives,¹¹ China's Small and Growing Businesses (SGBs)ⁱⁱⁱ also play a significant role in meeting these social and environmental challenges. With a reported 42 million in 2007, SGBs account for 99.7 percent of businesses in China.¹² According to a Small Enterprise Assistance Funds (SEAF) study, investment in SGBs "can result in significant economic development and poverty alleviation."¹³ Among the study's surveyed firms, over 70 percent of new jobs generated from SGBs went to low-skilled workers.¹⁴ Furthermore, New Ventures China found that SGBs in key green industries promoted environmental benefits such as greenhouse gas reduction and energy conservation.¹⁵

Yet Chinese SGBs face severe financing constraints that limit their capacity.¹⁶ Banks are reluctant to lend to SGBs due to perceived high risk.¹⁷ According to the National Development and Reform Commission, over half of requested loans were denied to SGBs.¹⁸ Government funding to SGBs is limited because of strict eligibility requirements and favoritism towards large state-owned enterprises.¹⁹ Moreover, a survey conducted by the Economic Research Institute for ASEAN and East Asia found that the probability of being refused financing for a Chinese SGB decreases as its size gets larger.²⁰ Funding is available but it is restricted to larger businesses.

It is not just Chinese SGBs that face difficulty accessing finance, but SGBs around the world. The World Bank Enterprise Surveys, taking data from over 30,000 firms in 135 counties, found that more than 30 percent of all SGBs identified access to finance as a major constraint.²¹ Even in the U.S., many small businesses^{iv} have difficulty receiving funding. When applying for

ⁱ From years 1993 to 2004.

ⁱⁱ From years 2004 to 2009.

ⁱⁱⁱ Chinese Small and Growing Businesses (SGBs) are generally defined as having less than 3,000 employees and CNY 400 million (USD 66.1 million). While also referred to as Small and Medium Enterprises (SMEs), the term SGB better conveys the business's desire to grow and expand.

^{iv} I use the U.S. Small Business Administration definition of "small business". Differences between U.S. "small business" and Chinese "small and growing business" are small and not relevant for this report. Please see Appendix 1 for more details about definitional differences.

credit, half of U.S. small businesses received none or only some credit.²² Moreover, in developing nations, microfinancing institutions consider SGB financing needs too large, further reducing financing sources for SGBs.²³

Lack of financing for SGBs has significant country effects including diminished innovation and economic development. A study conducted by Ayyagari, Demirgüç-Kunt, and Maksimovic (2007, 2008) found a positive association between use of external finance and innovation.²⁴ Using this result, the World Bank in their Policy Research Report *Finance for All* (2008) concluded, “access to and use of financing...favorably affect firm performance...If entry, growth, innovation, equilibrium size, and risk reduction are all helped by access to and use of finance, it is almost inescapable that aggregate economic performance will also be improved.”²⁵ Access to finance is essential not only for SGBs, but also a nation’s economic development.

China Impact Fund and Report Purpose

Aware of Chinese SGBs’ financing constraints, the China Impact Fund (CIF) is helping SGBs through impact investing and technical assistance. As China’s first impact fund, CIF recognizes that SGBs play an essential role in China’s development. CIF targets social and environmental (SE)^v SGBs to accelerate development and improve the lives of Chinese citizens. Companies such as the Beijing Organic Farm Development and Nanjing Ecostar Printing Solutions exemplify CIF’s goal by including social objectives in their mission, or offering environmentally-friendly products or services through cleaner production methods.²⁶ CIF envisions:

“...new and innovative [SGBs] are helping China solve critical environmental problems, creating jobs, and providing investors with solid financial returns. Environmentally-focused entrepreneurs are receiving needed investment and key assistance in transforming their ideas into successful, growing companies that are helping reduce pollution, increase clean energy, protect biodiversity and improve the quality of life.”²⁷

CIF is researching crowdfunding, an alternative source of financing through small internet-based funding, to support SGBs. Crowdfunding breaks down geographic boundaries and allows Chinese companies to reach funders around the world.

^v Social and environmental includes entities that have either a social, environmental, or social and environmental mission.

Crowdfunding as an Alternative Source of Funding

Crowdfunding originated from the word “crowdsourcing”.²⁸ Jeff Howe, a *Wired* magazine writer who first coined the term, describes crowdsourcing as “the act of taking a job traditionally performed by a designated agent (usually an employee) and outsourcing it to an undefined, generally large group of people in the form of an open call”.²⁹ Derived from its parent term “crowdsourcing”, crowdfunding is: *An open call to people to provide small amounts of funding, usually in exchange for some kind of reward.*³⁰

Crowdfunding is simultaneously an innovative and disruptive force. By sidestepping traditional financing systems such as banks and venture capitalists, fund seekers can appeal directly to the internet “crowd” for financing. Crowdfunding internet platforms have sprung up, allowing fund seekers to “call out” or campaign to the “crowd” by funding incentives offered: lending, donations, rewards, and equity.³¹

Through these platforms, people worldwide have recognized and capitalized on this opportunity, transforming crowdfunding from a small idea into a global phenomenon. With over 500 active crowdfunding platforms around the world in 2012,³² estimated funds raised through crowdfunding platforms increased from USD 1.5 billion in 2011 to USD 5 billion in 2013, a 240 percent rise.³³

Existing Research on Crowdfunding

Existing studies tend to focus on the economics and psychology behind crowdfunding,³⁴ with limited research on crowdfunding for SE SGBs, and developing countries such as China. However, one report by the World Bank (2013) and an article written by Lenher (2013) offer relevant research for Chinese SE SGBs.

Crowdfunding for SE SGBs

Lenher (2013) in his article “Crowdfunding Social Ventures: A Model and Research Agenda” investigates crowdfunding for SE SGBs, reviewing available crowdfunding literature through a social entrepreneurship lens. He emphasizes the for-profit and social mission-driven duality which makes crowdfunding a potentially useful tool for SE SGBs. Crowdfunding can offer a democratic platform to boost legitimacy and obtain financing capital. Lenher recognizes the lack of substantial research in crowdfunding and proposes a future research agenda to help SE SGB successfully utilize crowdfunding. While my research does not directly explore Lenher’s agenda, it investigates aspects including opportunity recognition, networking, and legal and regulatory perspectives.

Crowdfunding for Development

The World Bank (2013) in their report *Crowdfunding's Potential for the Developing World* suggests that crowdfunding can accelerate growth in developing countries. By “leapfrogging” traditional forms of finance, entrepreneurs in developing nations can gain access to finance that fosters innovation and industry. Although crowdfunding in developing countries is still in its early stages, the World Bank acknowledges its significant market potential of over 300 million households and potential spending up to USD 100 billion a year by 2025. Notably, the World Bank highlights China in a separate appendix, stating that although the country is constrained by illegal fundraising, buyer mentality, and weak intellectual property protection, it accounts for potential spending of USD 50 billion. Comprising half of the total spending mentioned above, China has the greatest marketing potential out of all the countries.

Crowdfunding for Chinese Social and Environmental Small and Growing Businesses

Although limited, this research suggests that crowdfunding is a potentially powerful financing alternative for Chinese SE SGBs. Chinese SE SGBs can capitalize on their SE mission while also accessing needed capital. However, the current Chinese crowdfunding industry is small. Indeed, crowdfunding outside of North America and Europe amounts to only USD 49 million (about 3 percent) of global crowdfunding funds.³⁵ In contrast, the U.S. is the crowdfunding industry leader with almost 200 crowdfunding platforms, the most out of any country.³⁶ Notably, President Obama recently signed the Jumpstart Our Business Startups (JOBS) Act in 2013.³⁷ As a result, unaccredited investors can now participate in equity crowdfunding.³⁸ It is clear that there is already significant movement in the U.S. crowdfunding industry.

Chinese SE SGBs may find U.S.-based crowdfunding platforms to be more fruitful compared to China-based platforms, especially if they target Chinese diaspora who may be receptive to their fundraising efforts.

Research Strategy

Given the dynamic U.S. crowdfunding industry, my research project investigates the feasibility of Chinese SE SGBs to use U.S.-based crowdfunding platforms. The project will assist CIF by expanding upon their current crowdfunding research to support Chinese SE SGBs.

Research Question

Is it feasible for Chinese Social and Environmental (SE) Small and Growing Businesses (SGBs) to use U.S.-based crowdfunding platforms to gain access to financing?

Methodology

Research Components

To determine feasibility, I broke down the concept into three key research components:

1. **Accessibility** to U.S.-based crowdfunding platforms.
2. **Burden** (Time) of crowdfunding.
3. **Funding** received.

For each research component, I established benchmarks to weigh Chinese SE SGB campaigners against general U.S. campaigners. A campaigner is a person who crowdfunds through a crowdfunding platform by themselves or with a team for a specific campaign. Numbers used for the benchmark requirements were taken from the Kickstarter, IndieGogo, and Small Business Administration websites. Additionally, I used the Hui, Gerber, and Greenberg (2012) study “Easy Money? The Demands of Crowdfunding Work” which provided an understanding of the work associated with crowdfunding and is approximately representative of the U.S. crowdfunding population.^{vi}

1. Benchmark for **Accessibility**
 - a. At least one U.S.-based crowdfunding platform allows Chinese SE SGBs to participate.
 - b. Crowdfunding platform participation fee is equal to or less than 5 percent of an SGB’s total revenue.³⁹
2. Benchmark for **Burden**⁴⁰
 - a. Time for Chinese SE SGBs to prepare their campaign is equal to or less than 2.5 years.^{vii}
 - b. Time for Chinese SE SGBs to run their campaign is equal to or is less than 11 hours a day.^{viii}
 - c. Time for Chinese SE SGBs to finish their campaign is equal to or less than a year.^{ix}
3. Benchmark for **Funding**
 - a. The percentage of Chinese SE SGBs who reached their initial funding goal out of all projects that reached their deadline is greater than or equal to 40 percent.⁴¹

^{vi} Hui, Gerber, and Greenberg assert that their participants are representative of the Kickstarter crowdfunding population. Considering Kickstarter’s status as the largest U.S.-based crowdfunding platform and that the majority of campaigns are from within the U.S., I believe that the Hui, Gerber, and Greenberg study is representative of the U.S. crowdfunding population.

^{vii} Includes understanding, preparing and testing the campaign.

^{viii} Includes marketing the campaign.

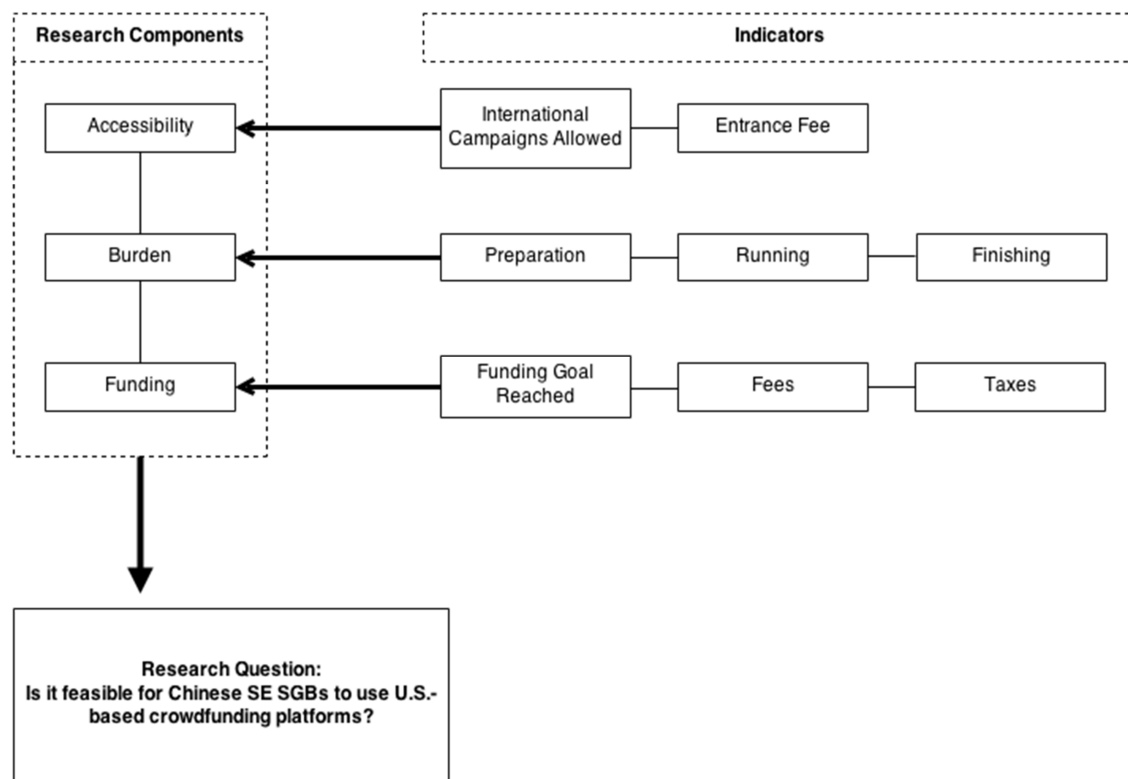
^{ix} Includes executing the campaign by sending the rewards.

- b. Remaining funds after accounting for crowdfunding platform transaction fees, credit card processing fees, and taxes are greater than or equal to 70 percent of the total funding pledged by funders.^x

The Accessibility benchmark and either the Burden or Funding benchmark have to pass for the answer to the research question to be “feasible”. Accessibility is required to pass because Chinese SE SGBs must be able to participate in U.S.-based crowdfunding platforms. However, only Burden or Funding needs to pass. Chinese SE SGBs may find it worth the extra time burden beyond that of U.S. campaigners to obtain financing. Or Chinese SE SGBs may find the time burden reasonable even if they obtain less than the desired amount of funding.

Whether a benchmark passes or not is determined by the values of relevant indicators within the benchmark. For Accessibility, indicators include International Campaigns Allowed, and Entrance Fee. Burden includes Preparation, Running, and Finishing. Funding includes Funding Goal Reached, Fees, and Taxes. Figure 1 provides a visual diagram:

Figure 1: Relevant Indicators for Key Research Components



^x This assumes that the initial funding goal is met or surpassed. For my calculations, I use the average fee information from Kickstarter and IndieGogo, which came to a transaction fee of 4.5 percent and a credit card fee of 3.5 percent. Both fees are applied to the total funding pledged. I use the average effective tax rate for small business of 19.8 percent from Quantrria Strategies (2009) *Effective Federal Income Tax Rate Faced by Small Businesses in the United States*. I exclude state business tax and sales tax because it varies widely, with many businesses purposefully locating themselves in states with low business tax and no or low sales tax. The tax rate is applied to the total funding pledged minus the transaction and credit card fees.

All indicators measured for the relevant benchmark have to meet or exceed the benchmark requirements for it to pass.

Data Sources

Data for the indicators include primary and secondary information. For Accessibility, data came from campaigner eligibility and crowdfunding fee information from the nine major U.S.-based crowdfunding platforms. For Burden, I relied on campaigner interviews. For Funding, I investigated campaigns that supported Chinese SE SGBs and were featured in the nine major U.S.-based crowdfunding platforms.^{xi} Additional Funding data came from pricing information on from the nine major U.S.-based crowdfunding platforms and regulatory laws.

Currently, most crowdfunding platforms are donations or rewards-based.⁴² I focused on these instead of equity or lending-based platforms.

Campaigner Interviews

Ideally, I planned to interview 5-10 campaigners who crowdfunded through a U.S.-based crowdfunding platform for Chinese SE SGBs. However, because the Asian crowdfunding industry is small with crowdfunding a relatively new concept in China,⁴³ I anticipated difficulty reaching this ideal interview pool. Alternatively, I planned to interview at least one campaigner who fit my ideal situation. This ideal campaigner would have crowdfunded through a U.S.-based crowdfunding platform for a Chinese SE SGB. In this scenario, a Burden benchmark passes if the indicator data from the ideal campaigner surpasses the benchmark requirements. To supplement this small data set, I also planned to interview campaigners who shared similar backgrounds or campaign characteristics. Eligible campaigners included those who crowdfunded through U.S.-based crowdfunding platforms for either Chinese SGBs, U.S. SE SGBs, or China-based SE projects. Note, in both the ideal and alternative cases, the origin of the campaigner does not matter.

I used two methods to find campaigners to interview. First, I employed a snowball sampling interview collection technique, asking my Chinese and business contacts to refer me to potential campaigners. After interviewing some of the campaigners, I asked them if they would refer me to other potential campaigners.^{xii} Second, I searched popular U.S.-based crowdfunding

^{xi} Within each of the nine major U.S.-based crowdfunding platforms, I searched for campaigns using the key words “China” or “Chinese” in the location search function. Within these results, I looked for campaigns that supported Chinese SE SGBs, excluding those without a SE purpose and those not affiliated with a business. The business had to be based in Mainland China, excluding Hong Kong and Taiwan. If the business had several offices with one branch in China, I also included it. I did not include campaigns that were still going on. I excluded campaigns from Global Giving because these campaigns did not have an end date. All campaign information retrieved January 21, 2014 from Kickstarter, IndieGogo, Crowdrise, and RocketHub.

^{xii} As discussed by Goldstein (2002) *Getting in the Door: Sampling and Completing Elite Interviews* and Bleich and Pekkanen (2013) *How to Report Interview Data*, the snowball sampling collection technique is useful in obtaining interviewees from the targeted population. However, interviewees gathered through this technique are not completely independent from each other and will not be entirely representative of the Chinese SE SGB population.

platforms, identified potential campaigners, and e-mailed campaigners directly for an interview. Both methods complement each other, comprehensively surveying potential campaigners. The first method connects me directly with campaigners, while the second method manually searches the crowdfunding landscape to identify campaigners missed from the first method.

Results

Benchmark for Accessibility

Among nine popular U.S.-based crowdfunding platforms that are donations or rewards-based, six allow Chinese campaigners to participate. All platforms did not require any participation fees. Figure 2 summarizes the information among the nine U.S.-based crowdfunding platforms:

Figure 2: Application Fees and Participation Requirements

Crowdfunding Platform	Application Fees	How to Participate	Allow International Campaigns?
Crowdrise	None	Participants must be fundraising for a charity	Yes
Fundable	None	Must be a for-profit company	No
Fundly	None	Simply sign up	No
Global Giving	None	Organizations must nominate themselves and apply for membership. After the application process, organizations must successfully participate and raise \$5,000 in 4 weeks from 40 donors to be invited as a long-term member	Yes - must pass application process and not be listed in any terrorist databases
IndieGogo	None	Almost anyone can join with some exceptions	Yes - except countries on the U.S.'s OFAC sanctions list
Kickstarter	None	Campaigners' projects must be finite and fit into one of these categories: art, comics, dance, design, fashion, film, food, games, music, photography, publishing, technology, and theater. All projects are received by staff.	Yes - currently only U.K., Canada, Australia, and New Zealand
Peerbackers	None	Campaigners are subject to initial review before being posted on the website	Yes - as long as paypal account can be open there
RocketHub	None	Simply sign up	Yes
StartSomeGood	None	Campaigners' projects must meet criteria. Generally only for projects with social impact, however StartSomeGood also looks at viability, networks and rewards	Yes - as long as paypal account can be open there

Nevertheless, I employ this technique because it is the most viable method to obtain interviewees given the difficulty in identifying and enlisting their help.

Profiles of Campaigner Interviewees

I was only able to identify and interview one ideal campaigner who crowdfunded through a U.S.-based crowdfunding platform for a Chinese SE SGB. To supplement this small data set, I also interviewed six other campaigners who used a U.S.-based crowdfunding platform, seeking those similar to my ideal campaigner. In particular, the other campaigners must have either crowdfunded for a SE SGB or for a SE project based in China. I interviewed three campaigners who crowdfunded for a SE SGB and three campaigners who crowdfunded for a SE project based in China.

My ideal campaigner crowdfunded to restore a business cooperative that would increase rural Chinese families' income levels and protect a nature reserve. This campaigner's crowdfunding purposes fit perfectly with the SE focus and assisted a Chinese business. For the other six campaigners, three campaigners had a SE focus, but crowdfunded for U.S. small businesses,^{xiii} while three campaigners crowdfunded for China-based, non-business affiliated SE projects.

Of those three that crowdfunded for U.S. small businesses, two used crowdfunding to finance early startup stages of their companies, while one crowdfunded to launch their product. Industries of these three campaigners included industrial goods and consumer products. All campaigners were U.S. citizens. Two of the three campaigners were located in the U.S. southern region, while one was located in the U.S. western region.

Of those three that crowdfunded for China-based, non-business affiliated SE projects, each used crowdfunding to finance a sports, environmental or educational project. Two of the campaigners were U.S. citizens, while one was a Chinese citizen. Two of the three projects targeted two major Chinese cities, while the other targeted a rural community.

All campaigners crowdfunded with small teams of less than 25 people and used either Kickstarter IndieGogo, or StartSomeGood as their U.S.-based crowdfunding platform.

Findings

All campaigners expressed uncertainty in providing estimates of their time burden, citing that each day varied significantly. As a result, campaigners warned that their estimates may not be accurate. Some campaigners felt unable to give estimates.

My ideal campaigner took 4-6 weeks to prepare, 8 hours per a day to run, and 2 months to finish their campaign. For the other campaigners, time burdens varied from 1 week to 3-4 months for preparation, 1 hour per a day to 17 hours per a day for running, and 1.5 weeks to a year for finishing the campaign. One campaigner was still in the process of finishing their

^{xiii} As a reminder, differences between U.S. "small business" and Chinese "small and growing business" are not relevant for this report. Please see Appendix 1 for more details about definitional differences.

campaign and could not answer the question. Figure 3 summarizes these findings for time burden.

Figure 3: Time Burden of Preparing, Running and Finishing a Campaign

Crowdfunding Activity	Ideal Campaigner	Other Campaigners	
		Minimum	Maximum
Preparing	4-6 weeks	1 week	3-4 months
Running	8 hours / day	1 hour / day	17 hours/day
Finishing	2 months	1.5 weeks	1 year

Benchmark for Funding

Among nine popular U.S.-based crowdfunding platforms, I searched for campaigns that supported Chinese SE SGBs, noting whether they successfully achieved their funding goal. Only 2 out of 14 campaigns that supported Chinese SE SGBs reached their funding goal, constituting 14.3 percent. This is less than the 40 percent required for one of the Funding benchmark requirements.

Remaining funds after accounting for crowdfunding platform transaction fees, credit card processing fees, and taxes were 73.6 percent of the total funding pledged by funders.^{xiv} This is greater than the benchmark requirement of 70 percent. I calculated the percentage by using transaction and credit card fees of 4.5 percent and 3.5 percent respectively.^{xv} Moreover, I also used the Chinese corporate income tax of 20 percent for SGBs.^{xvi} China has no sales tax or local business income tax.⁴⁴

^{xiv} Assuming that Chinese SE SGBs have an initial crowdfunding goal of USD 100,000, given an average transaction fee of 4.5 percent, a credit card fee of 3.5 percent plus USD12.5, and a corporate income tax of 20 percent, the remaining funding is USD 73,590. This is 73.6 percent.

^{xv} This is the same transaction and credit card fee I used to determine the last Funding benchmark requirement. It is an average of the transaction and credit card fees from Kickstarter and IndieGogo.

^{xvi} Taken from Zhang *A Summary of Enterprises Income Tax Law of the People's Republic of China*. The 20 percent applies specifically to enterprises with annual taxable income of less than RMB 300,000, employees less than 100, and total assets less than RMB 30,000,000; or enterprises with annual taxable income of less than RMB 300,000, employees less than 80, and total assets less than RMB 10,000,000.

Results Summary

The Accessibility and Burden benchmarks passed, however Funding did not pass.

Figure 5: Summary Results

		Findings	Pass?
1	Benchmark for Accessibility		Yes
1.a	At least one U.S.-based crowdfunding platform allows Chinese SGBs to participate	6 out of 9 platforms	Yes
1.b	Crowdfunding platform participation fee is equal to or less than 5 percent of an SGB's total revenue	0 percent of SGB's total revenue	Yes
2	Benchmark for Burden		Yes
2.a	Time for Chinese SE SGBs to prepare their campaign is equal to or less than 2.5 years	4-6 weeks	Yes
2.b	Time for Chinese SE SGBs to run their campaign equal to or is less than 11 hours a day	8 hours / day	Yes
2.c	Time for Chinese SE SGBs to finish their campaign is equal to or less than a year	2 months	Yes
3	Benchmark for Funding		No
3.a	The percentage of Chinese SE SGBs who reached their initial funding goal out of all projects that reached their deadline is greater than or equal to 40 percent	14.3 percent	No
3.b	Remaining funds after accounting for crowdfunding platform transaction fees, credit card processing fees, and taxes are greater than or equal to 70 percent of the total funding pledged by funders	73.6 percent	Yes

Discussion

Despite potential difficulties, results suggest it is feasible for Chinese SE SGBs to use U.S.-based crowdfunding platforms. As expected, the majority of U.S.-based crowdfunding platforms investigated allowed Chinese and other international campaigners to participate. Chinese campaigners may face language difficulties but they can partner with U.S. citizens to help them with language barriers^{xvii}. All crowdfunding platforms investigated did not have any participation fees, although some required approval from platform staff prior to campaign launch.

Participation did not impose a substantial time burden for Chinese SE SGBs compared to U.S. campaigners. Time burden seemed comparable to general U.S. crowdfunding campaigners although there were large ranges depending on factors including campaign purposes, reward offerings, team composition, and networks. The time burden for preparing focused on designing the reward incentive system, budgeting, and marketing the campaign. For running the campaign,

^{xvii} The majority of Chinese citizens have also studied English. According to Wei and Su (2012) "The statistics of English in China" *English Today*, 67.4 percent of citizens with a junior secondary education qualification or above studied at least one foreign language, of which 93.8 percent studied English.

the time burden centered on answering e-mails, persevering through the “lull” after initial campaign launch, and making adjustments. After the end of the campaign, the time burden for finishing consisted of answering e-mails, and producing and shipping rewards.

Funding was different from general U.S. crowdfunding campaigners. The percentage of Chinese SE SGBs who reached their initial funding goal was less than other general U.S. crowdfunding campaigners. This suggests that Chinese SE SGB may have faced cultural barriers such as misunderstanding of American societal norms that may have impacted their marketing and success outcomes. Encouragingly, funds remaining after accounting for fees and taxes were less than the estimated amount for general U.S. crowdfunding campaigners. Moreover, there were no additional financial or government burdens despite crowdfunding funds being moved into China. In fact, given China’s potentially lower business income tax and the lack of local business tax, Chinese campaigners may find themselves retaining more money than general U.S. campaigners.

Crowdfunding Lessons for Chinese Social and Environmental Small and Growing Businesses

Moving beyond feasibility, Chinese SE SGBs willing to venture into the U.S. crowdfunding market should carefully assess their next steps. I offer several lessons that surfaced through my research and interviews.

First, personal and professional networks play a powerful role in crowdfunding. Chinese SE SGBs should have a strong network of professional and personal contacts in the U.S. Many interviewees expressed heavy reliance on their networks to get immediate funding, word-of-mouth marketing, and presence in the crowdfunding market. As expressed by one interviewee, “It’s easy to fool oneself into thinking that you can just launch a campaign and people will find it... You have to make a lot of effort to get the word out... We all emailed professional contacts in addition to personal contacts... it was a PR blitz.” Chinese SE SGBs can ask their U.S. contacts to help navigate the U.S. marketplace and identify cultural expectations. Moreover, as supported by Mollick’s (2013) research, personal networks are associated with campaign success. Chinese SE SGBs will greatly benefit from a strong network.

Second, any campaign should have a consistent, clear and strategic marketing plan. Concurrent with having a strong professional and personal network, several interviewees highlighted how marketing contributed to their campaign success with one even referring to crowdfunding as a “big marketing campaign.” One interviewee stressed the difficulty of coordinating press and media coverage, yet expressed the payoff it yielded in maximizing campaign visibility. Another interviewee attended public events to promote their campaign and target potential contributors. As small international businesses, Chinese SE SGBs will need to rely on a strong marketing plan to publicize themselves and their campaign.

Third, Chinese SE SGBs should carefully decide how to position their campaign. Funders can be viewed either as customers that “pre-order” campaign rewards, or as supporters of a

communal and charitable purpose. Comments from interviewees and findings from Gerber, Hui, Kuo (2011), Greenberg, Hui, and Gerber (2013), Agrawal, Catalini, Goldfrab (2013) reflect these dual motivations behind funder crowdfunding pledges. Choosing a positioning angle depends on the Chinese SE SGB's short and long term goals. A Chinese SE SGB can design their campaign to reflect themselves as a company selling a product, or as a force of good promoting a social mission and "thanking" funders with rewards. For one interviewee, as part of a nonprofit, they had positioned their campaign as the latter. Although successful at reaching their funding goal, the interviewee also talked about the advantages of being able to "sell" a product saying, "...I think that would be a lot easier to crowdfund...because it's just like buying a product in advance...the money that I'm paying for something and the product that I'm getting in return is worth that money." Chinese SE SGBs will need to think cautiously since their decision may affect future campaigns and business transactions.

Lastly, crowdfunding is generally a high time commitment with no guarantee of success. Many interviewees expressed the large time burden required to manage their campaigns with one calling it "very labor intensive method of fundraising." Of those that found crowdfunding to be easy, their funding goal or the total amount received was small, about USD 5,000 or less. Hui, Gerber, and Greenberg (2012) remark on the time consuming nature of crowdfunding and the variety of skills needed. As one interviewee described, "Definitely a job. There's nothing easy... You have to put a lot of effort into crafting it, putting it together well, and spreading it, and promoting it and pushing... persevering until the end..." Chinese SE SGBs that crowdfund should be prepared for a possible time commitment of a year or longer devoting between 1-17 hours a day to sustain the campaign.

Conclusion

Crowdfunding offers a viable and innovative new way for Chinese SE SGBs to gain access to finance despite the challenges. Next steps involve future research into best practices for Chinese SE SGBs to crowdfund using U.S.-based crowdfunding platforms.

Appendices

Appendix 1: Definitions of Small and Growing Businesses, Small and Medium Enterprises, and Small Businesses

Small and Growing Businesses

The Aspen Network of Development Entrepreneurs (ANDE) defines Small and Growing Businesses (SGBs) as “commercially viable businesses with five to 250 employees that have significant potential, and ambition, for growth. Typically, SGBs seek growth capital from USD 20,000 to 2 million. SGBs differ from the more traditional characterization of small and medium enterprises (SMEs) in two fundamental ways. First, SGBs are different from livelihood-sustaining small businesses, which start small and are designed to stay that way. Second, unlike many medium-sized companies, SGBs often lack access to the financial and knowledge resources required for growth.”⁴⁵

Small and Medium Enterprises

The Chinese government defines Small and Medium Enterprises (SMEs) by the industry, number of employees, total assets and business revenue. SMEs must fulfil one of the criteria in their relevant industry to be considered small or medium sized.

Size Category	Industries	Number of Employees	Total Assets	Business Revenue
Small	Agriculture, Forestry, Animal Husbandry, Fishing			CNY 0.5M-5M / USD 82K-820K
	Industry	20-300		CNY 3M-20M / USD 500K-3.3M
	Construction		CNY 3M-50M / USD 500K-8.2M	CNY 3M-60M / USD 500K-9.8M
	Wholesale	5-200		CNY 10M-400M / USD 1.6M-66M
	Retail	10-300		CNY 1M-200M / USD 164K-33M
	Transport	20-1000		CNY 2M-300M / USD 330K-49M
	Storage	20-200		CNY 1M-300M / USD 164K-49M
	Post	20-1000		CNY 1M-300M / USD 164K-49M
	Lodging and Restaurant	10-300		CNY 1M-100M / USD 164K-16M
	Information	10-2000		CNY 1M-1000M /

Size Category	Industries	Number of Employees	Total Assets	Business Revenue
Medium	Transmission			USD 164K-164M
	Software and IT	10-300		CNY 0.5M-100M / USD 82K-16M
	Real Estate Development and Sales		CNY 20M-100M / USD 3.3M-16M	CNY 1M-2000M / USD 164K-328M
	Property Management	100-1000		CNY 5M-50M / USD 820K-8.2M
	Rent, Commerce, and Service	10-300		CNY 1M-1200M / USD 164K-197M
	Other	10-300		
	Agriculture, Forestry, Animal Husbandry, Fishing			CNY 5M-200M / USD 820K-33M
	Industry	300-1000		CNY 20M-400M / USD 3.3M-66M
	Construction		CNY 50M-800M / USD 8.2M-131M	CNY 60M-800M / USD 9.8M-131M
	Wholesale	20-200		CNY 50M-400M / USD 8.2M-66M
	Retail	50-300		CNY 5M-200M / USD 820K-33M
	Transport	300-1000		CNY 30M-300M / USD 4.9M-49M
	Storage	100-200		CNY 10M-300M / USD 1.6M-49M
	Post	300-1000		CNY 20M-300M / USD 3.3M-49M
	Lodging and Restaurant	100-300		CNY 20M-100M / USD 3.3M-16M
	Information Transmission	100-2000		CNY 10M-1000M / USD 1.6M-164M
	Software and IT	100-300		CNY 10M-100M / USD 1.6M-16M
	Real Estate Development and Sales		CNY 50M-100M / USD 8.2M-16M	CNY 10M-2000M / USD 1.6M-328M
	Property Management	300-1000		CNY 10M-50M / USD 1.6M-8.2M
	Rent, Commerce, and Service	100-300		CNY 80M-1200M / USD 13.1M-197M
	Other	100-300		

Source: 工信部联企业. (2011) 关于印发中小企业划型标准规定的通知. [cited December 1 2013]. Retrieved January 22, 2014, from http://www.gov.cn/zwgg/2011-07/04/content_1898747.htm.

Small Businesses

The U.S. Small Business Administration (SBA) defines a Small Business as “one that is independently owned and operated, is organized for profit, and is not dominant in its field. Depending on the industry, size standard eligibility is based on the average number of employees for the preceding twelve months or on sales volume averaged over a three year period.”⁴⁶

Industry	Number of Employees	Annual Receipts
Manufacturing	500-1500	
Wholesaling	100-500	
Services		USD 2.5M-21.5M
Retailing		USD 5M-21M
General and Heavy Construction		USD 13.5M-17M
Special Trade Construction		USD <7M
Agriculture		USD 0.5M-9M

Annual Receipts means the total income plus the cost of goods sold. (SBA “Guide to Size Standards”)

Source: SBA *What is SBA’s definition of a small business concern?*, Retrieved January 22, 2014, from <http://www.sba.gov/content/what-sbas-definition-small-business-concern>.

SBA *Summary of Size Standards by Industry*. Retrieved January 22, 2014, from <http://www.sba.gov/content/summary-size-standards-industry>.

Appendix 2: Selected U.S.-Based Crowdfunding Platforms

Crowdfunding Platform	Type	Main Purpose / Audiences	Business Model	Fees and Costs	How to Participate	Global?	U.S. Web Traffic ^{xviii}
Kickstarter	Donations / Rewards	To support creative projects. / Artists and creative people with general online funders	All or nothing	No application fee 5% transaction fee from a project total if goal is reached 3-5% for credit card fee through Amazon Payments and other third party payments	Campaigners' projects must be finite and fit into one of these categories: art, comics, dance, design, fashion, film, food, games, music, photography, publishing, technology, and theater All projects are reviewed by staff	Yes - currently only US, UK, Canadian, Australian, and New Zealand	365
IndieGogo	Donations / Rewards	Empower individuals for any project / Project creators with general online funders	Keep funds you raise, and all or nothing	No application fee 4% transaction fee from project total if goal is reached, or 9% transaction fee from project total if goal is not reached (optional but must decide prior to campaign launch) 3% for credit card fee + \$25 wire fee for non-US campaigns Alternative plans for nonprofits	Almost anyone can join with some exceptions	Yes - except countries on the US's OFAC sanctions list	546

^{xviii} Alexa Ranking in the U.S. as of 3/22/2014. Alexa is a web information company that provides website analytics and global web traffic estimates. Rankings, as defined by Alexa are “The country traffic rank is a measure of how a website is doing among internet users in a particular country relative to other sites over the past month. The rank by country is calculated using a combination of the estimated average daily unique visitors to a site and the estimated number of pageviews on that site from users in that country over the past month. The site with the highest combination of unique visitors and pageviews is ranked #1 in that country.” Retrieved from <http://www.alexa.com/help/traffic-learn-more>.

Crowdfunding Platform	Type	Main Purpose / Audiences	Business Model	Fees and Costs	How to Participate	Global?	U.S. Web Traffic xviii
Fundly	Donations	To support good causes by making fundraising easier / Individuals and organizations that need to fundraise for social causes	Keep funds you raise	<p>No application fee</p> <p>Three different monthly pricing plans (Free, \$199, Custom) based on what services campaigners want</p> <p>Depending on the pricing plan, there is a 4.9%, 3.9%, or 2.9% transaction fee</p> <p>3% for credit card fee through WePay</p>	Simply sign up	No	8,444
Crowdrise	Donations	Fundraising for charities and social causes / People fundraising for causes and general online funders	Keep funds you raise	<p>No application fee</p> <p>Three different monthly pricing plans (Free, \$49, \$199) based on what services campaigners want</p> <p>Depending on the pricing plan, there is a 5%, 4%, or 3% transaction fee</p> <p>2.9% + \$0.30 for credit card fee through Network for Good, WePay, or Amazon Payments</p>	Participants must be fundraising for a charity	Yes	5,998
Fundable	Rewards / Equity	Focuses on startups and helping provide access to finance / Startups and investors	All or nothing	<p>No application fee</p> <p>\$179 per month during active fundraising campaign</p> <p>No percentage fees, although a 3.5% credit card fee through WePay will be applied if goal is reached (only for Rewards model)</p>	Must be a for-profit company	No	14,542

Crowdfunding Platform	Type	Main Purpose / Audiences	Business Model	Fees and Costs	How to Participate	Global?	U.S. Web Traffic xviii
RocketHub	Donations / Rewards	Empowering anyone to raise project funding / Anyone – artists, scientists, entrepreneurs, social leaders - and general online funders	Keep funds you raise	No application fee 4% transaction fee from a project total if goal is reached, or 8% transaction fee if goal isn't reached 4% credit card fee	Simply sign up	Yes	22,447
Global Giving	Donations	To provide a charity fundraising platform for social entrepreneurs and nonprofits / Social entrepreneurs and nonprofits	Keep funds you raise	No application fee 15% fulfillment fee (includes operations and credit card processing)	Organizations must nominate themselves and apply for membership After the application process, organizations must successfully participate and raise \$5,000 in 4 weeks from 40 donors to be invited as a long-term member	Yes - must pass application process and not be listed in any terrorist databases	20,251
StartSome Good	Donations / Rewards	To support social change and innovation / Social entrepreneurs with general online funders	Tipping point model - up to a certain percentage of their total goal is all or nothing	No application fee 5% transaction fee of project total as long as tipping point reached 3% for credit card fee through WePay and PayPal if tipping goal passed	Campaigners' projects must meet criteria Generally only for projects with social impact, however StartSomeGood also looks at viability, networks and rewards	Yes - as long as paypal account can be open there	89,598

Crowdfunding Platform	Type	Main Purpose / Audiences	Business Model	Fees and Costs	How to Participate	Global?	U.S. Web Traffic xviii
Peerbackers	Donations / Rewards	To help entrepreneurs get capital in exchange for rewards to funders / Entrepreneurs with general online funders	All or nothing model However, if the campaigner did not meet the funding goal but can still fulfill the rewards, then the funds will be released to the campaigner	No application fee 5% transaction fee from a project total if goal is reached 2.9% for credit card fee through PayPal	Campaigners are subject to initial review before being posted on the website	Yes - as long as paypal account can be open there	251,657

Appendix 3: Interview Questions

Crowdfunding Pre-Interview Questions

Thanks for agreeing to participate! I really appreciate you taking the time to fill out this survey and talking with me.

This project is part of my Master Project at Duke University and findings will be incorporated into a larger project for the China Impact Fund. It will provide information in the hope of answering the question: Is it feasible for Chinese social and environmental small and growing businesses (SGBs) to use US-based crowdfunding platforms to gain access to financing?

This is important because China Impact Fund would like to help many SGBs get access to financing, especially those with a social and environmental impact in China.

This survey should take less than 10 minutes of your time. Thank you again for your help!

Question	Choices
Are you a full-time employee of the business or are you a contractor?	Full-time employee Contractor Other
Could you briefly describe the/your business?	
How many permanent, full-time employees work at the business? Please include all employees and managers.	
How many part-time employees?	
How many temporary employees?	
In this fiscal year, what is the range of the business's total assets?	US dollars 0-1M / Chinese 人民币 0-6.1M US dollars 1M-5M / Chinese 人民币 6.1M-30.5M US dollars 5M-10M / Chinese 人民币 30.5M-60.9M US dollars 10M-50M / Chinese 人民币 60.9M-304.6M US dollars 50M-100M / Chinese 人民币 304.6M-609.3M US dollars 100M+ / Chinese 人民币 609.3M+
In this fiscal year, what is the range of the/your business's total revenue?	US dollars 0-1M / Chinese 人民币 0-6.1M US dollars 1M-5M / Chinese 人民币 6.1M-30.5M US dollars 5M-10M / Chinese 人民币 30.5M-60.9M US dollars 10M-50M / Chinese 人民币 60.9M-304.6M US dollars 50M-100M / Chinese 人民币 304.6M-609.3M US dollars 100M+ / Chinese 人民币 609.3M+
In what year did the business begin operations?	
What is your business title?	

Question	Choices
In what year were you born?	
What is your country of citizenship?	China United States Other
How long have you lived in your country of citizenship?	
What country were you born in?	
What country did you grow up in?	
What is the highest level of education you have completed? If currently enrolled, what is the previous degree received?	Less than High School High School / GED Some College 2-year College Degree 4-year College Degree Masters Degree Doctoral Degree Professional Degree (JD, MD)
What country did you get your educational degree?	China United States Other

Crowdfunding Interview Questions

Questions	Choices
Campaigner Country of Citizenship	China United States Other
What crowdfunding platform(s) have you used?	Kickstarter IndieGogo Other
Could you tell me about the crowdfunding campaign(s) that you have participated in? What were you trying to get funding for?	
Why did you decide to run a campaign and use a crowdfunding platform?	
Why did you decide to use a U.S.-based crowdfunding platform? [Only for campaigners that have crowdfunded for Chinese businesses]	
Could you describe how you prepared your campaign(s). Preparing involves activities prior to launch of the campaign, including understanding the opportunities and responsibilities of crowdfunding, creating the video and written materials, budgeting, designing the rewards, and asking for initial feedback on materials.	
Would you say preparing for your campaign(s) was easy or hard?	Easy Neutral Hard
How easy was it preparing for your campaign(s)?	Somewhat Easy Easy Very Easy

Questions	Choices
How hard was it preparing for your campaign(s)?	Somewhat Hard Hard Very Hard
What made it easy or difficult to prepare for your campaign(s)?	
How much did it cost to prepare?	
How many days/months did it take to prepare?	
Could you describe how you ran your campaign(s). Running involves activities after launching the campaign but before the campaign ends, including marketing the project, and answering questions from potential funders.	
Would you say running your campaign(s) was easy or hard?	Easy Neutral Hard
How easy was it running your campaign(s)?	Somewhat Easy Easy Very Easy
How hard was it running your campaign(s)?	Somewhat Hard Hard Very Hard
What made it easy or difficult to run your campaign(s)?	
How much did it cost to run?	
How many days/months did it take to run?	
Could you describe how you finished your campaign(s). Finishing involves activities after the campaign has ended, including producing and sending the rewards, and receiving the funds.	
Would you say finishing your campaign(s) was easy or hard?	Easy Neutral Hard
How easy was it finishing your campaign(s)?	Somewhat Easy Easy Very Easy
How hard was it finishing your campaign(s)?	Somewhat Hard Hard Very Hard
What made it easy or difficult to finish your campaign(s)?	
How much did it cost to finish?	
How many days/months did it take to finish?	
How much did you raise in your campaign(s)?	
Did you meet your funding target?	Yes No
What was your funding target?	
How much did you raise in your campaign(s) after all fees and taxes were considered?	
What fees did you pay to use the crowdfunding platform?	
What taxes you had to pay on the funds you received from crowdfunding?	

Questions	Choices
Aside from taxes, could you describe any government restrictions / regulations you faced while crowdfunding? Any related to receiving your funding?	
Could you describe additional costs you incurred because you were getting money from the U.S.? [Only for campaigners that have crowdfunded for Chinese businesses]	
Would you consider crowdfunding again?	Yes No
What would you do differently knowing what you do now?	
Could you describe any benefits you experienced from crowdfunding?	
Could you describe any problems you experienced from crowdfunding?	
Is there anything else that you feel is important and would like to share?	
Do you know someone(s) who campaigned for a [Chinese (SE) SGB, U.S. (SE) SGB, Chinese SGB] who might be interested in talking with me more about their crowdfunding experiences?	

Appendix 4: Interviewees

Campaigner Interviewees

Name	Title / Position	Crowdfunding for Business / Organization
Aimee Bailey	Henry Luce Scholar	Global Environmental Institute
Ben Cohen	CEO	TOHL
Valerie Lemke	Founder and CEO	Jjangde
Christopher J. McLaurin	League Organizer	American Football League of China
Li Wang	Co-founder	Prop Roots Program
Xiaowei Wang	Director of Programs	FLOAT Beijing
Brent Ward	Business Development Consultant, RubyRed LLC	LYF

Informational Interviewees

Name	Title / Position	Business / Organization
Anonymous	Philanthropy Consultant	
Steve Colmar	CEO of Business Ventures Corp Crowdfunding Platform Creator	Business Ventures Corp; I-Bankers Direct
Tim Rann	Freelance Impact Investing Consultant	
Samantha Snabes	CEO of re:3d	re:3d
Stephen Walsh	Cofounder for ISKN technologies	Grenoble Ecole de Management

Appendix 5: Limitations and Threats to Validity

Construct

Due to the subjective nature of my research question and the lack of quantifiable data, my analysis will not be as precise as a quantitative study. Confounding variables may impact my analysis. Readers should examine the outcomes with some skepticism. To mitigate this situation, I quantify my research strategy as much as possible. I divide the research question into the three key research components, which are further segmented into benchmarks, and then indicators. During interviews, I tried to quantify responses by asking for numbers and using a scaling system to order strength of opinion.

Internal

The two methods I used to find interviewees – a snowball sampling collection technique, and directly e-mailing campaigners – may result in selection bias. By using a snowball sampling collection technique, I will receive responses dependent on one another. However, I believe this is the best method given the lack of available information. Additionally, when I directly e-mailed campaigners, I may have missed some potential interviewees since they may have used a U.S. address rather than a Chinese address for their campaign. However, I would not be able to determine this information if the campaigner did not include it in their posted campaign.

External

My interviews limit how generalizable my results are to the Chinese SE SGB population. Only one interviewee has crowdfunded through a U.S.-based crowdfunding platform for a Chinese SE SGB. The other six only share similar backgrounds or campaign characteristics by crowdfunding through U.S.-based crowdfunding platforms for either a Chinese SGBs, U.S. SE SGB, or China-based SE project. Because crowdfunding is still a relatively new concept in China,⁴⁷ I anticipated this difficulty and alternatively planned to mitigate this problem by obtaining campaigners who would at least be campaigning for a China-based project or an SE purpose. All campaigners must have used a U.S.-based crowdfunding platform to be eligible.

Additionally, I chose to exclusively focus my analysis on donations or rewards-based platforms due to time and scope constraints. Donations or rewards-based are the most popular type of crowdfunding platform, raising over 50 percent of crowdfunding funds in 2012.⁴⁸ Future studies may want to include or focus exclusively on equity-based crowdfunding platforms.

Lastly, I recognize that a SGB's industry could influence the accessibility, burden and funding results. However, the purpose of my research is to provide a broad investigation of the crowdfunding feasibility for Chinese SE SGBs to use U.S.-based crowdfunding platforms. Industry breakdown is beyond this report's scope, and could be a next step for future research.

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